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BEFORE THE TENNESSEE REGULATORY AUTHORITY

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September 26, 2005

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ATMOS ENERGY CORPORATION

) **Docket No. 05-00177**

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

**NOTICE OF FILING BY UTILITIES DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY**

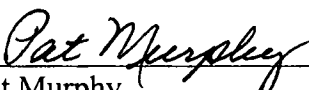
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").
2. The Company's WNA filings were received on November 1, 2004, through April 30, 2005, and the Staff completed its audit of same on September 14, 2005.
3. On, September 15, 2005, the Utilities Division issued its preliminary WNA audit findings to the Company, and on September 21, 2005, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Utilities Division of the
Tennessee Regulatory Authority


CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of September, 2005, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

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Pat Murphy

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 05-00177

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EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 05-00177

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

SEPTEMBER 2005

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 05-00177

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment ("WNA") Rider of Atmos Energy Corporation ("Atmos" or "Company"). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2004 and April 30, 2005. As a result of the WNA Rider, the Company surcharged a net \$1,728,633.52 and \$787,438.85 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V.

The Staff's audit results showed that the Company over-collected \$30,848 from its customers. See Section VI for a description of the Staff's finding. This amount is considered immaterial compared to the total amount billed. Therefore, except for the one finding noted in this report, Staff concludes that Atmos is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation.

The Staff also audited a sample of customers' bills representative of the WNA period to verify that the WNA factor was correctly applied to the bills.

Pat Murphy and Paul Greene of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Atmos Energy Corporation with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a wholly owned subsidiary of its parent company Atmos Energy Corporation, located in Dallas, Texas. Atmos is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is purchased by Woodward Marketing¹, and delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission. The four interstate pipelines are East Tennessee Natural Gas ("ETNG"), Texas Eastern Transmission Corporation ("TETC"), Columbia Gulf Transmission Corporation ("CGTC"), and Texas Gas Transmission Corporation ("TGTC").

ETNG provides service to Atmos in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City, and Kingsport areas.

TETC and CGTC provide service to Atmos in Tennessee for Murfreesboro, Nolensville, Franklin, and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to Atmos in Tennessee to Union City and adjacent areas in Obion County.

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission² ("PSC") approved a three-year experimental Weather Normalization Adjustment Rider³ to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁴ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See* Attachment 1). On June 21, 1994, the PSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version⁵ of the WNA Rider. Atmos is authorized to calculate WNA adjustments during the months of November through April of each year. The TRA Staff audits these calculations annually.

¹ Woodward Marketing is the wholly owned marketing arm of Atmos Energy Corporation

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch 305, 1995 Tenn Pub Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn Code Ann § 65-4-104 *see also* Tenn Code Ann § 65-4-101 (a) (defining public utility)

³ *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991)

⁴ On July 31, 1997, United Cities Gas Company was acquired by Atmos Energy Corporation located in Dallas, Texas. Following the acquisition, the Company continued operating as United Cities Gas Company, a division of Atmos Energy Corporation. On September 4, 2002, Atmos Energy Corporation filed tariffs with the Authority to cease the use of the name "United Cities Gas Company" and to reflect the corporate name of "Atmos Energy Corporation." Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the company would start doing business as Atmos Energy™

⁵ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER

The graphs appearing at the end of this section show a comparison of actual heating degree days to normal heating degree days for Atmos Energy Corporation during the 2004 - 2005 heating season, in each of its four service areas. During the past winter, overall, weather was 7.57% warmer in the Bristol area, 11.39% warmer in the Knoxville area, 8.19% colder in the Nashville area, and 6.82% warmer in the Paducah area. The following tables show a comparison of the actual degree days (ADD) to normal degree days (NDD) by month for the four weather stations.

Bristol:

Month	ADD	NDD	Percent Change	Warmer/Colder than Normal
October 2004	137	268	48.88%	Warmer
November 2004	435	531	18.08%	Warmer
December 2004	881	805	9.44%	Colder
January 2005	785	937	16.22%	Warmer
February 2005	666	756	11.90%	Warmer
March 2005	624	553	12.84%	Colder
April 2005	<u>293</u>	<u>284</u>	3.16%	Colder
Total	<u>3,821</u>	<u>4,134</u>	7.57%	Warmer

Knoxville:

Month	ADD	NDD	Percent Change	Warmer/Colder than Normal
October 2004	75	204	63.24%	Warmer
November 2004	362	460	21.30%	Warmer
December 2004	772	726	6.34%	Colder
January 2005	675	853	20.87%	Warmer
February 2005	580	665	12.78%	Warmer
March 2005	506	463	9.29%	Colder
April 2005	<u>197</u>	<u>203</u>	2.96%	Warmer
Total	<u>3,167</u>	<u>3,574</u>	11.39%	Warmer

Nashville:

Month	ADD	NDD	Percent Change	Warmer/Colder than Normal
October 2004	63	190	66.84%	Warmer
November 2004	346	451	23.28%	Warmer
December 2004	767	729	5.21%	Colder
January 2005	664	870	23.68%	Warmer
February 2005	554	678	18.29%	Warmer
March 2005	531	466	13.95%	Colder
April 2005	<u>179</u>	<u>201</u>	10.95%	Warmer
Total	<u>3,104</u>	<u>3,585</u>	13.42%	Warmer

Paducah:

Month	ADD	NDD	Percent Change	Warmer/Colder than Normal
October 2004	140	197	28.93%	Warmer
November 2004	412	483	14.70%	Warmer
December 2004	898	797	12.67%	Colder
January 2005	760	954	20.34%	Warmer
February 2005	598	736	18.75%	Warmer
March 2005	587	503	16.70%	Colder
April 2005	<u>210</u>	<u>199</u>	5.53%	Colder
Total	<u>3,605</u>	<u>3,869</u>	6.82%	Warmer

Due to the fact that overall the winter was warmer than normal, the net impact the WNA Rider had on the Company's revenues was that residential and commercial customers were **surcharged** \$1,728,633 and \$787,439 respectively. This equates to an increase in revenues from residential and commercial sales of 2.64% and 1.93% respectively. (See Table 1) The previous year, due to warmer than normal weather, the residential and commercial customers were **surcharged** \$669,763 and \$278,638 respectively. (See Table 2)

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2004 - April 30, 2005**

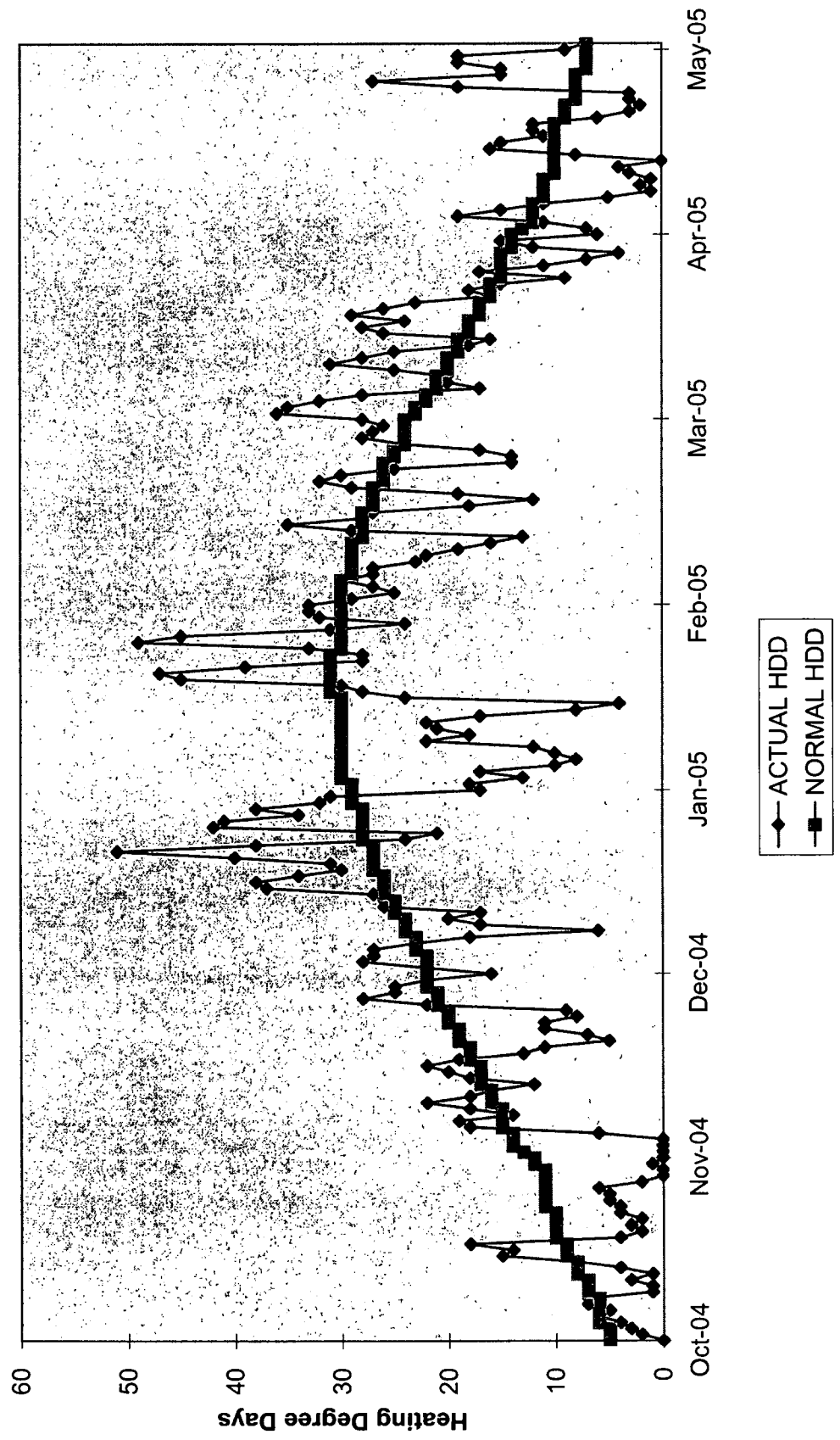
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenues</u>
Residential Sales	\$1,728,633	\$65,556,809	2.64%
Commercial Sales	<u>787,439</u>	<u>40,862,392</u>	1.93%
Total	<u>\$2,516,072</u>	<u>\$106,419,201</u>	2.36%

Table 2

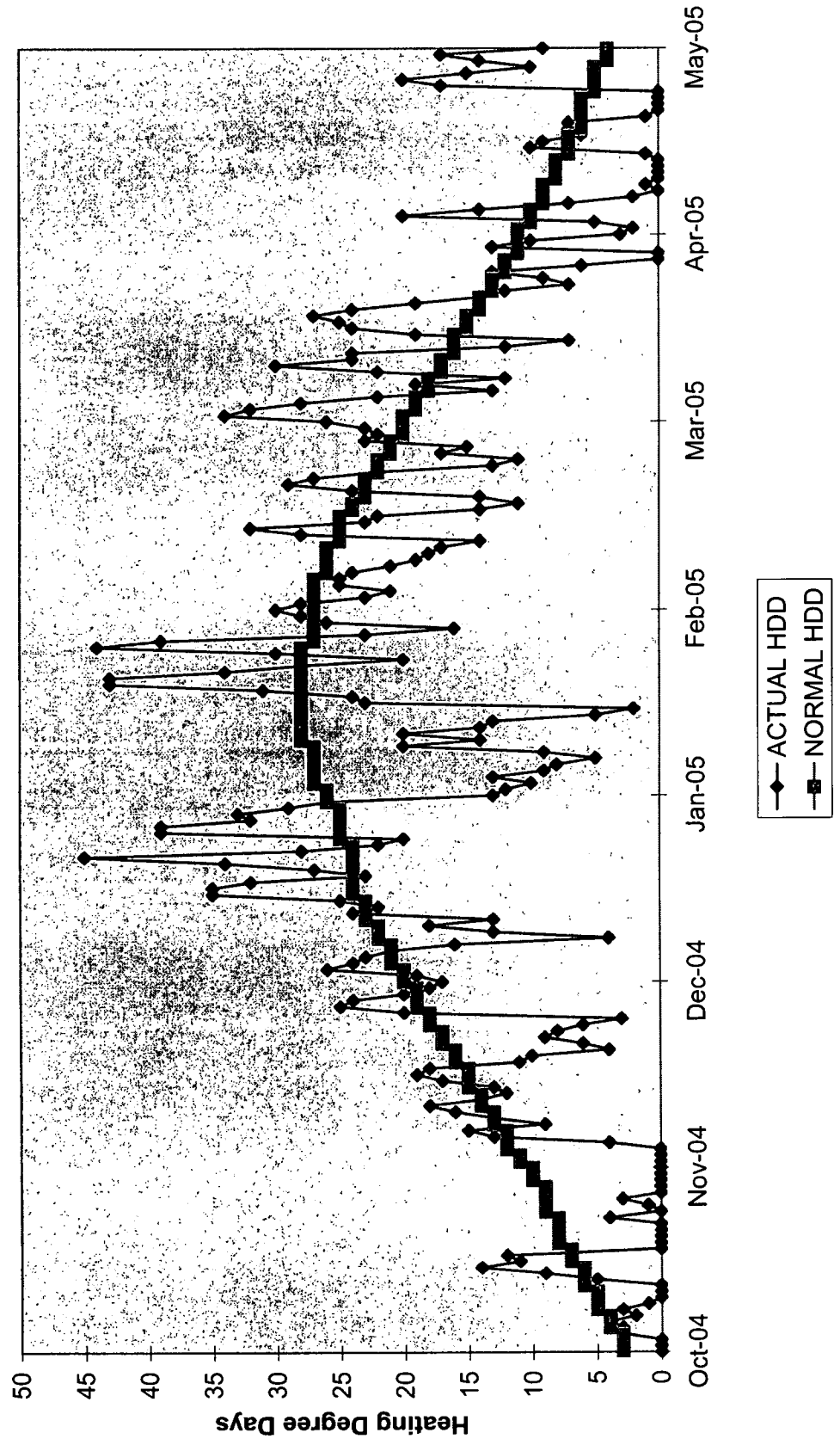
**Amount Surcharged (Refunded)
2002 - 2005**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/02-4/03	\$(823,402)	\$(395,803)	\$(1,219,205)
11/03-4/04	669,763	278,638	948,401
11/04-4/05	<u>1,728,633</u>	<u>787,439</u>	<u>2,516,072</u>
Total	<u>\$1,574,994</u>	<u>\$670,274</u>	<u>\$2,245,268</u>

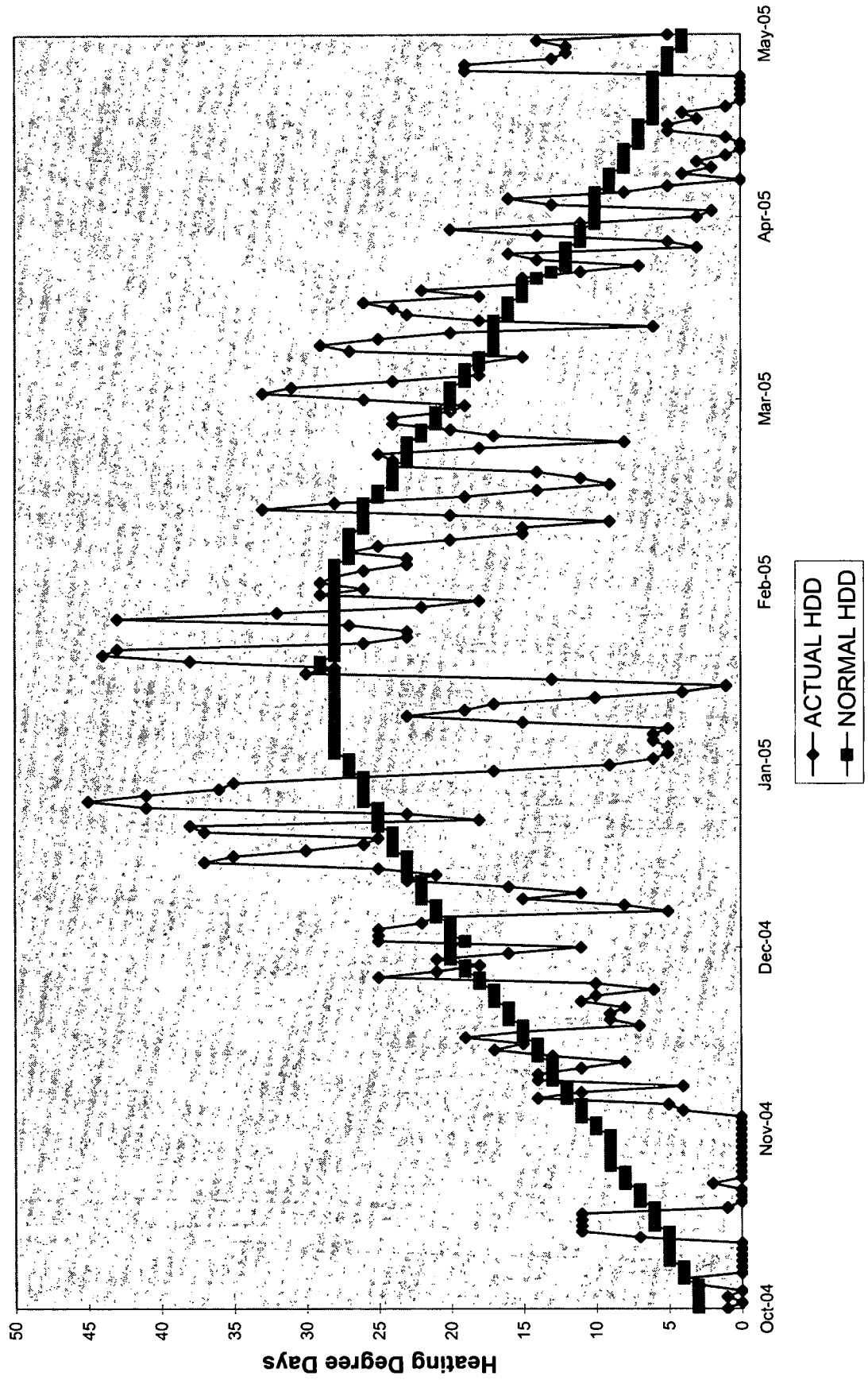
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station



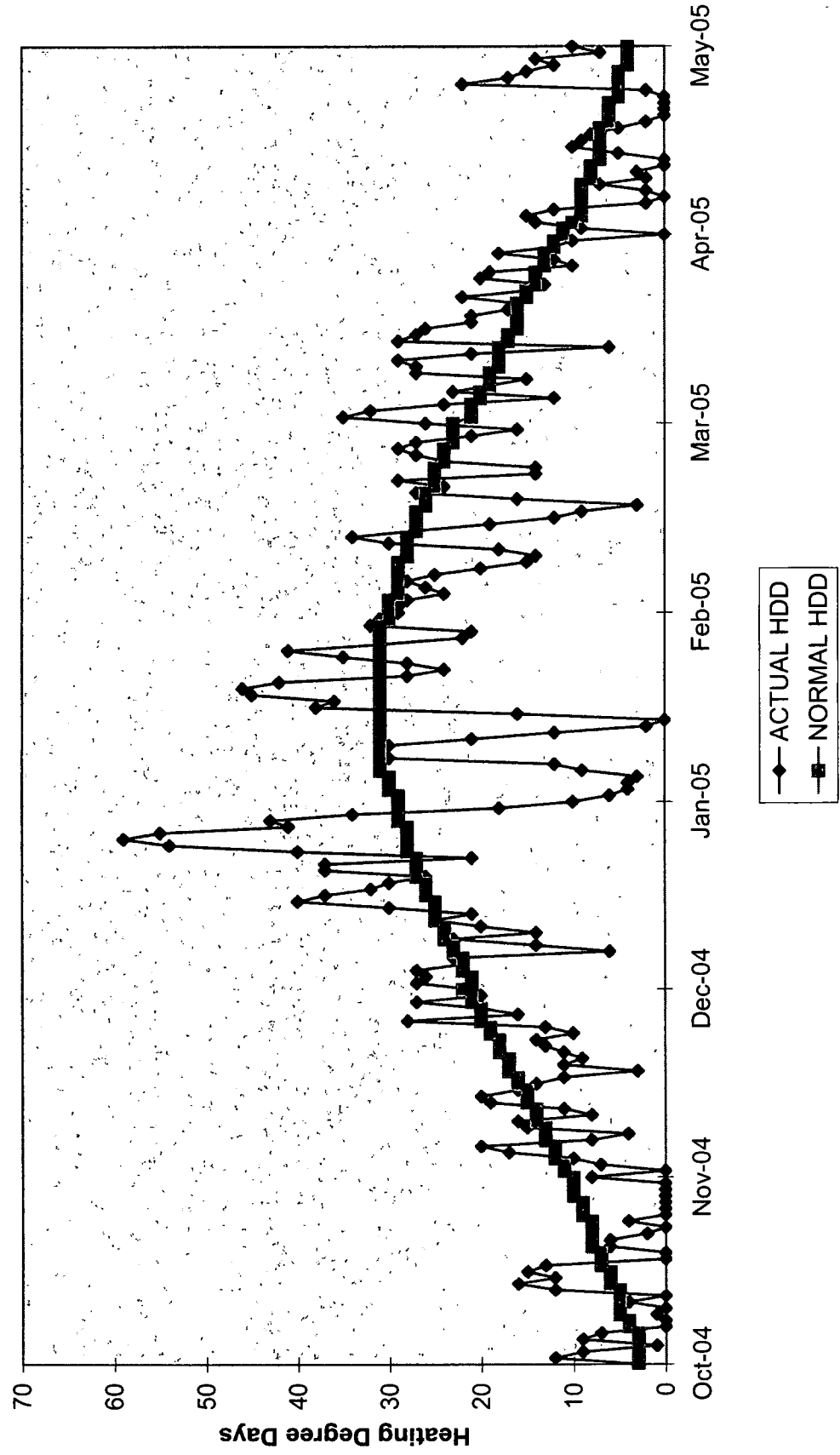
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station



Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station



VI. WNA AUDIT FINDINGS

As noted in Section I of this report, Staff had one finding for the audit of the period November 2004 through April 2005. The finding identified that the Company used incorrect actual degree days for twenty-two (22) days in their calculations which resulted in a over-recovery from the Company's customers.

The finding is considered immaterial when compared with the total WNA revenue and Staff believes that the Company is materially complying with the WNA Rider.

FINDING #1:

Exception

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit period consisted of 848 weather observations (212 days in the period times four weather stations). Staff's audit indicates that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor on five (5) days for the Bristol weather station, seven (7) days for the Knoxville weather station, seven (7) days for the Nashville weather station and three (3) days for the Paducah weather station for a total of twenty-two (22) weather observations. These inaccuracies resulted from the fact that, for the days in question, daily heating degree days published in NOAA's Local Climatological Data report⁶ differed from the daily heating degree days that the Company used in calculating its WNA factors.⁷

Nineteen (19) of the twenty-two (22) differences mentioned above were one degree-day. The one-day differences can sometimes be explained by rounding differences in the formula used to calculate the number of degree days on a specific day.

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Bristol:</u>			
11/28/2004	24	25	1
1/23/2005	48	49	1
2/1/2005	26	27	1
2/13/2005	28	27	-1
2/17/2005	28	29	<u>1</u>
		Total	<u>3</u>

⁶ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider

⁷ See Table below for detail of the differences

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Knoxville:</u>			
11/8/2004	12	13	1
11/16/2004	13	18	5
1/1/2005	21	10	-11
1/4/2005	7	8	1
2/1/2005	20	21	1
2/9/2005	13	14	1
3/26/2005	1	0	<u>-1</u>
		Total	<u>-3</u>
<u>Nashville:</u>			
11/25/2004	24	25	1
12/19/2004	36	37	1
2/3/2005	26	27	1
2/9/2005	16	20	4
2/14/2005	8	9	1
3/31/2005	1	2	1
4/30/2005	13	14	<u>1</u>
		Total	<u>10</u>
<u>Paducah:</u>			
12/22/2004	39	40	1
3/4/2005	13	12	-1
4/26/2005	11	12	<u>1</u>
		Total	<u>1</u>
		Net of 4 Stations	11

This degree day difference resulted in a net over-recovery of \$30,848 in WNA revenues. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the over-recovery in the Company's next Actual Cost Adjustment filing.

Company Response

The Company accepts Staff's recommendation to include the \$30,848 over-recovery in WNA revenues in its next Actual Cost Adjustment filing after Order is issued by the Tennessee Regulatory Authority.

VII. RECOMMENDATIONS AND CONCLUSIONS

The Company has responded to the Staff's audit findings and we are satisfied that the Company is appropriately addressing the one area of deficiency. As stated in Section I, except for the findings noted, the Staff concludes that Atmos is correctly implementing the mechanics of its WNA Rider. We recommend that the Company include this over-collection in its next Refund Due Customers filing with the TRA. This is the method the Company has customarily used.

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDERProvisions for Adjustment

The base rate per therm/Ccf (100,000 Btu) for gas service set forth in any Rate Schedules utilized by the Tennessee Regulatory Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of November through April.

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Regulatory Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Regulatory Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm/Ccf by the following formula:

$$WNA_i = R_i \frac{(HSF_i (NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm/Ccf
- R_i = weighted average base rate of temperature sensitive sales for the i^{th} schedule or classification utilized by the Tennessee Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Issued by: Patricia J. Childers, VP Rates and Regulatory Affairs
Date Issued: September 4, 2002

Effective Date: October 4, 2002

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

- HSF_i = heat sensitive factor for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

<u>Town</u>	<u>Residential</u>		<u>Commercial</u>	
	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>
Union City	13.906292	.156369	124.595029	.453633
Columbia Shelbyville Franklin Murfreesboro	13.035323	.173948	99.021858	.624513
Maryville Morristown	13.886330	.153366	111.454966	.658649
Johnson City Elizabethton Kingsport Greeneville Bristol	10.696903	.162066	169.773651	.611201

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